

WHAT IS A REVERSE MORTGAGE LOAN?

A reverse mortgage loan is a special type of mortgage that enables older homeowners to tap the equity in their homes. Homeowners borrow against the value of their homes and receive loan proceeds according to the payment plans they select. In effect, reverses the direction of the payments.

Unlike traditional mortgages or home equity loans, no repayment of the loan is required until the borrowers no longer occupy the home as their principal residence. At that time the loan would be due and payable. This could be due to death, moving out of the home, or selling the property. When a borrower no longer occupies the home, the accrued interest plus any cash the lender has paid to the borrower is due and payable.

HOW DOES A REVERSE MORTGAGE LOAN DIFFER FROM A HOME EQUITY LOAN?

Both reverse mortgage loans and home equity loans enables borrowers to turn the equity in their homes into spendable dollars, there are important differences. With home equity loans, borrowers must make regular monthly payments to repay the loans. These payments begin as soon as the loan is originated. To qualify for such a loan, the borrower must have a monthly income great enough to make the payments.

A reverse mortgage loan has two principal differences from the typical home equity loan:

1. The loan is not repaid as long as the home remains the borrower's principal residence.
2. The borrowers income is not considered when qualifying for the loan.

WHO IS ELIGIBLE FOR REVERSE MORTGAGE LOANS?

A borrower or co-borrower must be at least 62 years old and either own their home free and clear or have a very low outstanding mortgage balance.

HOW MUCH MONEY CAN I BORROW WITH A REVERSE MORTGAGE LOAN?

The maximum amount you can borrow, the principal limit, is based on three factors:

1. the number of borrowers;
2. the ages of the borrower/s; and

3. the adjusted property value.

The adjusted property value is the lesser of the appraised value of your home or the Fannie Mae loan limit. Currently, that limit is \$203,150. The principal limit would be determined at the time you closed your loan.

HOW WILL I RECEIVE MY MONEY?

When you close your loan, you will select one of the following payment plans:

- * **Tenure option** - you receive equal monthly payments for as long as you occupy the home as your principal residence.
- * **Line of credit option** - you draw upon the principal limit of cash available at time and in amounts of your choosing.
- * **Modified tenure option** - you may set aside a portion of loan proceeds as a line of credit and receive the rest in the form of equal monthly payments.

If you learn about a reverse mortgage from a company that offers a product, such as remodeling or an annuity, keep in mind that it's up to you how to use the money. Don't let yourself be pressured into spending it on that product. Make sure the money from a reverse mortgage is paid directly to you. Don't sign the funds over to anyone else.

WILL I HAVE TO PAY ANY FEES TO OBTAIN A REVERSE MORTGAGE LOAN?

The costs associated with setting up a reverse mortgage can make the loan a very expensive option if a small amount of money is utilized and/or the homeowner uses the money for a very short period of time. Some of the types of costs that can be imposed are:

- * points;
- * loan origination fees;
- * other closing costs; and
- * a monthly servicing fee.

Lenders usually allow you to finance most of the fees, the items would be included in your loan balance and you do not have to pay cash for them at the time the loan is closed. However, you would be paying interest on these fees during the term of the loan.

HOW IS INTEREST CHARGED FOR A REVERSE MORTGAGE LOAN?

Most reverse mortgage loans are adjustable-rate loans. The rates can be adjusted at different times; from daily to annually, etc. There

is usually a maximum rate for the life of the loan.

Changes in the adjustable-rate has no effect on the amount or number of loan advances you receive. Interest rate changes could cause the loan balance to grow faster with a higher rate or slower with a lower rate.

The cost of any reverse mortgage loan depends on how long you keep the loan and how much your house appreciates in value. Generally, the longer you keep a reverse mortgage, the lower the total annual loan cost rate will be.

WHAT DISCLOSURES WILL I BE GIVEN?

Lenders must disclose to you the "Total annual loan cost rates." This is a good-faith projection of the total cost of the credit, determined in accordance with federal Regulation Z, Section 226.33(b)(2) and expressed as a table. An explanation of the table must also be given.

Lenders must also disclose the "Projected total cost of credit." This disclosure reflects the following factors as applicable:

- * **Costs to consumer.** All costs and charges to the consumer, including the costs of any annuity the consumer purchases as part of the reverse mortgage transaction.
- * **Payments to consumer.** All advances to and for the benefit of the consumer, including annuity payments that the consumer will receive from an annuity that the consumer purchases as part of the reverse mortgage transaction.
- * **Additional creditor compensation.** Any shared appreciation or equity in the dwelling that the creditor is entitled by contract to receive.
- * **Limitations on consumer liability.** Any limitation on the consumer's liability.
- * **Assumed annual appreciation rates.** Each of the following assumed annual appreciation rates for the dwelling: 0 percent; 4 percent; or 8 percent.
- * **Assumed loan period.** Assumed loan periods of two years and the actuarial life expectancy of the consumer to become obligated on the reverse mortgage transaction. In the case of multiple consumers, the period shall be the actuarial life expectancy of the youngest consumer.

CAN I BE FORCED TO SELL OR VACATE MY HOME IF THE MONEY I OWE ON THE LOAN EXCEEDS THE VALUE OF MY HOME?

NO. As long as you continue to occupy the property as your principal residence and abide by the loan agreement, you can stay in your home as long as you choose. You would be responsible for

property maintenance and payment of all property taxes and insurance.

If you sell your home to your children or any other individual, the loan will be due and payable at settlement.

WILL MY HEIRS OWE ANYTHING TO THE MORTGAGE LENDER IF I DIE?

Upon your death, the loan balance, consisting of payments made to your or on your behalf (such as fees) plus accrued interest becomes due and payable. Your heirs may repay the loan by selling the home or by paying off the loan so that they may keep the home. If the loan balance exceeds the value of your property, your estate will owe no more than the value of the property. No additional financial claims may be made against your heirs or estate.

SUMMARY - SMART QUESTIONS TO ASK

Here's a handy list of questions to help you thoroughly assess if a reverse mortgage program is right for you:

1. What types of fees do I have to pay and what's the amount of each fee? An origination fee, Annual fee, servicing fee, mortgage insurance premium, a fee if I close my account?
2. What interest rate do you charge?
3. How long does it take to process the paperwork from application through closing
4. What income and credit requirements do you have?
5. What age requirements do you have?
6. When do I have to pay the loan off?
7. How do I access cash? Can I get it when I want it and how long does it take to get it when I do want it?
8. Do you share in the appreciation of my home? (Some programs are set up so that you not only pay on the money borrowed, but you also have to share the appreciated value of your home with the lender).

WHERE CAN I LEARN MORE ABOUT THE REVERSE MORTGAGE LOAN?

For more information on reverse mortgage loans and a list of participating lenders, contact Fannie Mae <http://fanniemae.com> at 1-800-7-FANNIE (1-800-732-6643) or write to:

Fannie Mae
Public Information
3900 Wisconsin Avenue, NW
Washington, DC 20016-2899

Fannie Mae has developed Home Keeper to help put equity to work for America's seniors.

Home Keeper is a conventional, adjustable-rate, reverse mortgage that allows senior homeowners to borrow against the value of their homes to meet a variety of financial and personal independence needs.

Another trustworthy source of free information about reverse mortgage is the Web site run by the National Center for Home Equity Conversion - <http://www.reverse.org>. The site includes calculators that a potential borrower can use to see how much money is available in their case with a reverse mortgage.

REMEMBER your home is likely to be the most expensive investment that you will ever make. Differences in mortgage terms can result in thousands of dollars of savings to you.



The Indiana Department of Financial Institutions, Division of Consumer Credit has many other credit related brochures available, such as:

Answers to Credit Problems
At Home Shopping Rights
Bankruptcy Facts
Buried in Debt
Car Financing Scams
Charge Card Fraud
Co-Signing
Credit and Divorce
Credit and Older Consumers
Deep in Debt?
Equal Credit Opportunity
Fair Credit Reporting
Fair Debt Collection
Hang up on Fraud
High Rate Mortgages
Home Equity Credit Lines
How to Avoid Bankruptcy
Look Before you Lease
Mortgage Loans
Repossession
Scoring for Credit
Using Credit Cards
Variable Rate Credit
What is the DFI?



Call our toll-free number or write to the address on the cover for a copy of any of the brochures listed or for further consumer credit information. You can also access information at our web site on the Internet: <http://www.dfi.state.in.us>, then click on Consumer Credit.

Reverse Mortgage Loans



DEPARTMENT OF FINANCIAL INSTITUTIONS

Consumer Credit Division
402 West Washington Street, Room W066
Indianapolis, Indiana 46204
317-232-3955
1-800-382-4880

Web Site <http://www.dfi.state.in.us>

